

GOVERNANCE AGREEMENT

by and among

MILLENNIUM CHALLENGE CORPORATION,

**the MINISTRY OF FINANCE,
representing the Government of Georgia**

and

MILLENNIUM CHALLENGE GEORGIA FUND

Dated as of April 7, 2006

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GOVERNANCE AGREEMENT

This **GOVERNANCE AGREEMENT** (this “**Agreement**”) is entered into as of April 7, 2006 (the “**Effective Date**”), by and among the Millennium Challenge Corporation, a United States Government corporation (“**MCC**”), the Government of Georgia, represented by the Ministry of Finance (the “**Ministry**”), and the Millennium Challenge Georgia Fund, a public legal entity under Georgian law, established pursuant to Presidential Decree No. 561, dated December 3, 2004 (“**MCA-Georgia**” or “**MCG**”) (collectively, the “**Parties**”, and each individually a “**Party**”).

RECITALS

WHEREAS, the United States of America, acting through MCC, and the Government of Georgia (the “**Government**”) executed the Millennium Challenge Compact on September 12, 2005 (the “**Compact**”), that sets forth the general terms and conditions on which MCC will provide funding of up to \$295,300,000 to the Government for a Millennium Challenge Account program to advance economic growth and reduce poverty in Georgia;

WHEREAS, as a condition precedent to the initial MCC Disbursement under the Compact, the Parties must execute and deliver a governance agreement that specifies the organizational structure of MCG, and the respective powers, rights and duties of its Directors, Management Team and Stakeholders’ Committee.

NOW THEREFORE, in consideration of the mutual promises and covenants contained herein, the Parties, intending to be legally bound, agree:

ARTICLE I SUPERVISORY BOARD OF DIRECTORS OF MCG

1.1 Composition. The Supervisory Board of MCG (the “**Supervisory Board**”) shall consist of (a) eight (8) voting members (the “**Voting Members**”); (b) the Chief Executive Officer of MCG, who shall be a non-voting member (the “**CEO**”); and (c) two (2) non-voting observers (the “**Observers**”) (the Voting Members, the CEO in his/her capacity as a member of the Supervisory Board, and the Observers are referred to in this Agreement as “**Directors**”). The number of members of the Supervisory Board may be expanded by a decision of the Supervisory Board, *provided that* any such expansion requires the prior written approval of MCC.

1.2 Appointment of Voting Members.

(a) The Cabinet of Ministers of the Government, acting upon the nomination of the Prime Minister, shall, with the prior written approval of MCC, appoint individuals meeting the following criteria to serve as Voting Members on the Supervisory Board, *provided that* such appointment shall take into consideration appropriate gender and ethnic representation:

(i) three (3) members of the executive branch of Government representing Ministries of the Government (one of whom shall be the Prime Minister);

(ii) one (1) member who shall be the head of the administration of the President of Georgia (together with the three Voting Members appointed pursuant to Section 1.2(a)(i) above, the “**Government Board Members**”);

(iii) two (2) members of the Georgian Parliament (“**Parliament Board Members**”);

(iv) one (1) representative of a civil society organization; and

(v) one (1) representative from the business sector (together with the Voting Member listed in Section 1.2(a)(iv) above, the “**Non-Government Board Members**”).

(b) Each Government Board Member shall serve in his or her capacity as a Government official and not in his or her personal capacity. If a person serving as a Government Board Member resigns or is removed from such Government office, that person’s position on the Supervisory Board will be taken by such person’s successor in such Government capacity.

(c) Each Parliament Board Member shall serve in his or her capacity as a member of Parliament and not in his or her personal capacity. If a person serving as a Parliament Board Member resigns or otherwise ceases to be a member of Parliament, the Cabinet of Ministers of the Government, acting upon the nomination of the Prime Minister, shall, with the prior written approval of MCC, appoint a then current member of Parliament to serve as a replacement Parliament Board Member.

(d) Each Parliament Board Member and each Non-Government Board Member shall be appointed for a two (2) year term, and any individual so appointed may be reappointed in accordance with Section 1.2 for one or more additional two (2) year terms. In the case of an appointment to fill a vacancy as described in Section 1.2(g), such new Parliament Board Member or Non-Government Board Member, as applicable, shall be appointed for a two (2) year term.

(e) In the event that a Voting Member is unable to participate in a meeting of the Supervisory Board, such Voting Member may appoint a proxy to participate for such Voting Member, *provided that* (i)(A) in the case of a Government Board Member, such proxy shall be such member’s principal deputy or equivalent, (B) in the case of a Parliament Board Member, such proxy shall be another member of Parliament, and (C) in the case of a Non-Government Board Member, such proxy shall be a representative of a civil society organization or from the business sector, as appropriate); (ii) such appointment shall be in writing and such writing shall specify the duration of such appointment; and (iii) any such appointment shall be subject to the written approval of the Supervisory Board.

(f) The Cabinet of Ministers of the Government may remove any Voting Member of the Supervisory Board, *provided that* the removal of any Non-Government Board Member shall be subject to the prior written approval of MCC.

(g) In the event that a vacancy is created with respect to one or more Voting Members at any time by death, disability, retirement, resignation, removal or any other reason,

the Prime Minister, with the prior written approval of MCC, shall nominate an individual to fill such vacancy, and such nomination and subsequent appointment shall be in accordance with the relevant provisions of Sections 1.1 and 1.2.

1.3 Appointment of the Chairman of the Supervisory Board.

(a) The activities of the Supervisory Board shall be managed by the chairman of the Supervisory Board (the “**Chairman**”). The Prime Minister shall serve as the initial Chairman. Each subsequent Chairman shall be a Voting Member chosen by the Voting Members, and shall be subject to the prior written approval of MCC. The initial Chairman and each subsequent Chairman so chosen shall serve for a term of two (2) years. The Chairman shall preside over all meetings of the Supervisory Board. In the case of the absence of the Chairman (or his/her designated proxy), the Voting Members shall elect one of the Voting Members to act as chairman for the purposes of such meeting.

(b) The Chairman shall certify that (i) all documents and reports submitted to MCC by the Supervisory Board in accordance with this Agreement or the Compact have been approved by the Supervisory Board, and (ii) such submissions are true, accurate and complete.

1.4 Appointment of Observers.

(a) The Observers on the Supervisory Board shall be appointed as follows:

(i) one (1) representative selected (and from time to time replaced) by MCC (the “**MCC Observer**”); *provided that* MCC may designate an alternate representative to attend one or more meetings of the Supervisory Board in the event the MCC Observer is unable to attend; and

(ii) one (1) of the civil society representatives of the Stakeholders’ Committee (as described in Section 3.1(a)) to be appointed by the Stakeholders’ Committee (the “**Civil Observer**”). The initial Civil Observer shall serve for a period of one (1) year from the date of the first Supervisory Board meeting after Entry into Force. Effective on each anniversary of the first Supervisory Board meeting after Entry into Force (or earlier, if such Civil Observer resigns or is unable to perform his or her functions as the Civil Observer prior to the end of his or her term), the Stakeholders’ Committee shall appoint another of its members to serve as a Civil Observer for the subsequent year. A member of the Stakeholders’ Committee then serving as Civil Observer may not be re-appointed to serve a consecutive term as Civil Observer. The Civil Observer may nominate an alternate representative from among the Stakeholders’ Committee to attend one or more meetings of the Supervisory Board in the event that the Civil Observer is unable to attend.

(b) The Observers shall not have any voting rights with respect to any action to be taken by the Supervisory Board. Except as otherwise expressly provided in this Agreement, each Observer shall have the right to attend all meetings of the Supervisory Board, participate in discussions of the Supervisory Board, and receive all information and documents provided to the Supervisory Board, together with any other rights (other than voting rights)

granted to a Voting Member of the Supervisory Board pursuant to this Agreement, including access to records, employees or facilities.

(c) Each of the Government and MCG hereby waives and releases all claims related to any liability or action arising out of each Observer's role as a non-voting observer on the Supervisory Board. In all matters arising under or relating to the Compact, this Agreement, or the activities of MCG, the MCC Observer shall not, in accordance with Section 3(d)(ii)(5) of Annex 1 of the Compact, be subject to the jurisdiction of the courts or any other body of Georgia, nor to any arbitral body, and nothing in such agreements or activities shall be construed as the consent of the MCC Observer to any such jurisdiction.

1.5 Indemnification and Insurance. The Government shall indemnify and hold harmless each Director and each member of the Management Team from and against any and all claims, losses, actions, liabilities, costs, damages or expenses, including reasonable attorneys' fees and expenses, arising or incurred by such Director or such Management Team member by reason of such Director's activities as a "Director," or such Management Team member's activities as a member of the Management Team, as applicable, *provided that* the Government shall have no obligation to indemnify any Voting Members or members of the Management Team under this Section 1.5 if and to the extent that any such claims, losses, actions, liabilities, costs, damages or expenses are attributable to the fraud, gross negligence or willful misconduct of such Voting Member or such member of the Management Team. The indemnification rights granted to each Director and each member of the Management Team pursuant to the preceding sentence are contractual rights that, notwithstanding anything to the contrary in this Agreement (including the amendment provisions of Section 6.10), cannot be diminished without the consent of the beneficiary of such rights. The Government shall act in accordance with the relevant provisions of the Compact, including Section 3.9 and Section 3(d)(ii)(5) of Annex I of the Compact, in fulfilling its obligations under this Section 1.5.

1.6 Authority of the Supervisory Board. Subject to MCC's contractual rights of approval as set forth in the Compact (including Section 3(c) of Annex I of the Compact), in this Agreement, or in any relevant Supplemental Agreement, the Supervisory Board shall have the following responsibilities and authority (which may not be delegated further):

(a) Oversight with respect to:

(i) the Management Team (as defined in Section 2.1);

(ii) the overall implementation of the Program in accordance with the Compact and the relevant Supplemental Agreements, including oversight of the Implementation Plan and any component plans thereto, as amended from time to time in accordance with the Compact and the relevant Supplemental Agreements; and

(iii) the performance of the MCA-Georgia Designated Rights and Responsibilities (as that term is defined in the Designation Agreement).

(b) Perform such other obligations and oversight functions in respect of MCG activities as contemplated by the Compact, the Designation Agreement, the Acceptance of Designation Agreement, this Agreement, Georgian legislation and the Charter.

(c) Without limiting the foregoing provisions of this Section 1.6, each of the following actions of MCG are specifically subject to the prior approval of the Supervisory Board (each, a “**Board Action**”):

(i) any transaction, activity, agreement or document that requires MCC approval pursuant to the Compact or pursuant to any Supplemental Agreement (including the transactions, activities, agreements and documents described in Paragraph 3(c) of Annex I of the Compact);

(ii) Re-Disbursements to any Provider to the extent that MCC, by written notice to MCG and the Fiscal Agent, directs the Supervisory Board to review and approve such Re-Disbursement;

(iii) entering into any agreement that would obligate MCG to a contractual obligation equal to or greater than US \$100,000 (One Hundred Thousand United States Dollars), or such other amount as may be agreed by MCC and MCG, including any amendments, modifications, termination or suspension of any such agreement;

(iv) any activities or actions that require Supervisory Board approval pursuant to the Procurement Agreement;

(v) submission of any MCC Disbursement Request to MCC (which approval shall include the approval of all attachments to such MCC Disbursement Request and the approval of the management discussion and analysis portions of such MCC Disbursement Request);

(vi) approval of (A) each component of the Implementation Plan (including the Financial Plan, the Procurement Plan, the M&E Plan, the Fiscal Accountability Plan and the Program and Project Work Plans), (B) the Audit Plans, (C) staffing plans (and any amendments, modifications, or supplements to any of the items described in this Section 1.6(c)(vi)(A)-(C)), and (D) any response to any finding in any audit identified in the Audit Plan;

(vii) entering into of any Supplemental Agreement, the Designation Agreement, and the Acceptance of Designation Agreement, including any amendments, modifications, termination or suspension thereof, and any action that would have the effect of amending, replacing, terminating or suspending any Supplemental Agreement to which MCG is a party, the Designation Agreement, or the Acceptance of Designation Agreement;

(viii) any proposal to (or any action that would) amend, replace, terminate, suspend or otherwise change any Board Action or other matter previously approved by the Supervisory Board;

(ix) the terms of employment (including compensation) and the employment agreement for the CEO, and any amendments thereto;

(x) the hiring and dismissal of the members of the Management Team (other than the CEO), and of any employee, consultant or expert to be hired by MCG whose gross monthly compensation is greater than US \$3,000 (Three Thousand United States Dollars), and the applicable terms of employment (including compensation) and the employment agreement for such person, and any amendments thereto;

(xi) review and approval of the reports, plans and other documents to be submitted to MCC or the Government as required by the Compact, this Agreement, or any Supplemental Agreement (such approval of the Supervisory Board to be received prior to submission of such reports, plans and documents to MCC or the Government, as applicable);

(xii) adjusting the allocation of funds between the various components of the Program, subject to the provisions of the Compact (including Paragraph 4 of Annex II of the Compact) and the prior written approval of MCC; *provided*, that, MCG may, without the approval of MCC, modify the Detailed Financial Plan so long as (A) all such modifications relating to the same line item described in the Multi-Year Financial Plan set forth in Annex II of the Compact do not exceed in the aggregate the lesser of (x) 10% of the relevant line item in the most currently approved Multi-Year Financial Plan and (x) US \$500,000, (B) such modification is consistent with the Objectives and does not cause the amount of MCC Funding to exceed the aggregate amount specified in Section 2.1(a) of the Compact and (C) MCG promptly delivers to MCC any such modified Detailed Financial Plan, together with a modified Multi-Year Financial Plan to reflect the corresponding modifications;

(xiii) any change in the number of members of the Supervisory Board (such change subject to the prior written approval of MCC);

(xiv) any expansion and/or adjustment to the composition of Stakeholders' Committee as described in Section 3.1(d) (such change subject to the prior written approval of MCC);

(xv) any amendment to the Charter (each such amendment subject to the prior written approval of MCC);

(xvi) any decision to (A) reorganize MCG, (B) dissolve, wind up or liquidate MCG, or (C) to make any other change in the legal organization of MCG; *provided that* each such decision (1) shall require approval of seventy five percent (75%) of the Voting Members present at a meeting at which there is a Quorum (*provided that* a change described in this Section 1.6(c)(xvi)(C) that is an immaterial change in the organization of MCG shall require approval of the Supervisory Board in the manner set forth in Section 1.8), (2) may not be made pursuant to Section 1.9, and (3) shall be subject to the prior written approval of MCC; and

(xvii) any other activities, agreements, documents, or actions requiring Supervisory Board approval as may be set forth in the Compact, in this Agreement, or in

any relevant Supplemental Agreement, or as may be required or requested from time to time by MCC.

The Supervisory Board shall deliver notice of any such Board Action, along with a copy of any applicable agreement or document, if appropriate, to MCC, which notice shall be certified by the Chairman, and such certification shall also state that such agreements and documents attached thereto are true, accurate and complete.

1.7 Meetings of Supervisory Board. Regular meetings of the Supervisory Board shall be held at such time and at such place as may from time to time be determined by the Supervisory Board, but shall be held at least on a quarterly basis and more frequently as may be necessary. Special meetings of the Supervisory Board may be called if requested by the Chairman, by any two Directors, or by the CEO. Notice stating the place, date, time and agenda of the meeting shall be given to each Director by the Secretary of MCG (a) in respect of a regular quarterly meeting, either by hand, mail, facsimile or telegram at least seven (7) days prior to the date of the regular quarterly meeting, and (b) in respect of a special meeting, either by hand or mail not less than 48 hours before the date of the special meeting or by telephone or telegram not less than 24 hours before the date of such special meeting. Notwithstanding the foregoing, (x) any Director may waive, in writing, the requirement to receive notice in respect of any such meeting, and (y) a Director's presence at any such meeting shall constitute waiver by such Director of the requirement to receive notice of such meeting. A valid meeting of the Supervisory Board may not be held unless each Director receives notice (or waives or is deemed to waive notice) of such meeting. To the extent any meeting of the Supervisory Board is conducted in Georgian, a translator shall be provided for any Director who does not speak Georgian. All documents to be discussed at any Supervisory Board meeting shall be translated into English, and the English language version of all such documents shall be made available to all Directors prior to the date of such Supervisory Board meeting.

1.8 Quorum; Voting. Except as may be otherwise specifically provided in this Agreement, (a) at all meetings of the Supervisory Board a majority of the Voting Members shall constitute a quorum for the transaction of business (a "*Quorum*"); *provided that* such majority must include either one or both of the Non-Government Board Members in order to constitute a Quorum, and (b) except as set forth in Sections 1.6(c)(xvi) and 1.9, the decision of a majority of the Voting Members present at any meeting at which there is a Quorum shall be an act of the Supervisory Board. Notwithstanding the foregoing, no decision shall be deemed to be an act of the Supervisory Board unless at least four (4) Voting Members cast votes in favor of such decision. Each Voting Member shall have one (1) vote in respect of any vote on any decision of the Supervisory Board. If there is a tie vote, the position taken by the Chairman in such vote shall prevail. If a Quorum is not present at any meeting of the Supervisory Board, the Directors present may adjourn the meeting, without notice other than announcement at the meeting, until a Quorum shall be present. Except as set forth in Section 1.9, each decision, election, appointment or action by the Supervisory Board, whether specifically set forth in this Agreement or otherwise, shall be made in accordance with the procedures set forth in this Section 1.8.

1.9 Action by Written Consent. Unless otherwise provided by this Agreement, any action required or permitted to be taken at any meeting of the Supervisory Board may be taken without a meeting if (a) notice of such proposed action is sent to all Directors, and (b) a majority

of all the Voting Members (one or more of which must be a Non-Government Board Member) consent in writing to such action. Any such action approved by written consent shall be filed with the minutes of proceedings of the Supervisory Board. Notwithstanding the foregoing, if two (2) or more Directors so request, the Supervisory Board shall hold a meeting (by telephone or otherwise) prior to such action by written consent.

1.10 Meetings by Means of Conference Telephone. Unless otherwise provided by this Agreement, the Directors may participate in a meeting of the Supervisory Board by means of a conference telephone or similar communications equipment that enables all persons participating in the meeting to hear and speak to each other. Participation in a meeting pursuant to this Section 1.10 shall constitute presence in person at such meeting.

1.11 Reporting Requirements. The agenda of any meeting of the Supervisory Board, the name of all attendees at such meeting, the issues discussed at such meeting, and all resolutions approved at such meeting shall be reflected in the minutes of the meeting which will be recorded by the Secretary of MCG, and such minutes shall be signed by the Chairman. The minutes of each Supervisory Board meeting shall be posted on the MCG Website within two (2) weeks after each meeting.

1.12 Remuneration. Directors shall not receive any remuneration in connection with the performance of their duties as Directors on (or, as applicable, as Chairman of) the Supervisory Board.

ARTICLE II MANAGEMENT TEAM OF MCG

2.1 Appointment. The President of Georgia, with the prior written approval of MCC, shall have the right appoint and dismiss the CEO. A management team shall be selected and hired by the CEO after an open and competitive recruitment and selection process (together with the CEO, the “**Management Team**”); the appointment and dismissal of each member of the Management Team shall be subject to the prior written approval of MCC and (except with respect to the CEO) the Supervisory Board. The Management Team shall be composed of qualified experts from the public or private sectors, including such offices and staff as may be necessary to carry out effectively its responsibilities, including the following: (a) the CEO, (b) a deputy director (“**Deputy Director**”), (c) five (5) project directors (each, a “**Project Director**”), (d) an environment and social impact director (“**ESI Program Director**”), (e) a chief financial officer (“**CFO**”), (f) a procurement director (“**Procurement Program Director**”), (g) a public outreach director (“**Public Outreach Program Director**”), (h) a monitoring and evaluation director (“**M&E Program Director**”), and (i) a general counsel (“**General Counsel**”). The General Counsel (or another member of the Management Team designated by the CEO) shall also act as the secretary of MCG (“**Secretary**”). A brief description of the responsibilities of each member of the Management Team and the Secretary is attached to this Agreement as Exhibit B; *provided that* such responsibilities may be adjusted by the CEO from time to time. The terms of employment for each member of the Management Team and for each employee designated by MCG as a key employee shall be governed by an employment agreement to be entered into between MCG and each such member or employee, as applicable. Georgian labor legislation shall not apply to any person with whom MCG enters into an employment agreement.

The Management Team will be supported by an office manager and appropriate administrative and support personnel. Unless otherwise agreed in writing by the Parties, the Management Team shall report, through the CEO, directly to the Supervisory Board and to the Stakeholders' Committee.

2.2 Authority of Management Team. The Management Team shall assist the Supervisory Board in overseeing the implementation of the Program and shall have the principal responsibility (subject to the direction and oversight of the Supervisory Board, and subject to MCC's rights of approval as set forth in the Compact (including Section 3(c) of Annex I of the Compact), in this Agreement, and in any relevant Supplemental Agreement) for the overall management of the implementation of the Program, including:

(a) development and administration of (i) all components of the Implementation Plan (including the Financial Plan, Procurement Plan, M&E Plan, Fiscal Accountability Plan, and all Program and Project Work Plans), (ii) the Audit Plans, (iii) staffing plans (and any amendments, modifications or supplements to any of the items in this Section 2.2(a)(i) - (iii)), and (iv) any response to any finding in any Audit;

(b) oversight of the implementation of the Projects;

(c) coordination of the overall Program, each Project, and the other activities contemplated under the Compact and any Supplemental Agreements, including in connection with the performance of any MCA-Georgia Designated Rights and Responsibilities (as defined in the Designation Agreement);

(d) management, implementation and coordination of the monitoring and evaluation of the Program and the Projects (including collection and analysis of data);

(e) development, oversight, management, coordination and implementation of such policies and procedures as may be necessary to facilitate the effective implementation of the Compact and as may be advisable in connection with any Supplemental Agreement, and such other policies, procedures, or activities as may be required or requested by the Supervisory Board in furtherance of the Compact;

(f) preparation and review of reports regarding the finances and accounting (including management reporting, accounts receivable, accounts payable, monthly, quarterly and annual financial statements, cash flow statements and projected cash flow requirements), performance, monitoring and evaluation, procurements, budgets, and audit reports of the Program, each Project and the other activities contemplated under, or carried out in furtherance of, the Compact and any other reports requested by the Supervisory Board;

(g) maintenance of accounting records for the Program, including for each Project;

(h) development and maintenance of a management information system to allow the systematic tracking of programmatic and financial implementation of and performance under the Compact, including each Project;

(i) commission and supervision of baseline and ex-post studies for each Project as may be required by the M&E Plan; establishment of data collection, analysis, and reporting systems for the overall Program and for each Project;

(j) conduct and oversight of procurements, and other procurement actions (including approvals thereof) in accordance with the Procurement Agreement and the standards set forth in the Procurement Guidelines;

(k) administration of the MCG Website to post current information about Compact-related activities, M&E Plan reporting, financial reporting, and Compact-related procurements (to the extent such procurement postings are required by the Procurement Agreement);

(l) provision of advice and written recommendations to the Supervisory Board on matters constituting Board Actions and in connection therewith, the Management Team shall prepare and submit to the Supervisory Board the relevant agreements, documents or actions to be approved, along with a written recommendation to the Supervisory Board on how to proceed on such agreement, document or action and any other documents needed to support such recommendation;

(m) preparation of and submission to the Supervisory Board of any Compact Report or any other report, document, agreement or action as may be designated or requested by the Supervisory Board from time to time, along with a written recommendation to the Supervisory Board on how to proceed;

(n) provision of quarterly reports to the Supervisory Board which shall include a report on the Stakeholders' Committee meetings that occurred during the period covered by such report, and how recommendations of the Stakeholders' Committee have informed the activities of MCG;

(o) report to and meet with the Stakeholders' Committee on a quarterly basis in accordance to Section 3.3(e); and

(p) any other responsibilities within the scope of its Program implementation management role that may be required or requested from time to time by the Supervisory Board.

2.3 Role of CEO.

(a) Subject to the provisions of the Compact, this Agreement, or any Supplemental Agreement, the CEO shall:

(i) pursuant to the Compact and applicable Georgian legislation, supervise the daily activities of MCG, convene and chair the Management Team meetings, manage MCG personnel, and organize and manage MCG activities; *provided that* the CEO may delegate any of its responsibilities under this Section 2.3(a)(i) to any member of the Management Team;

(ii) develop the structure of the Management Team and staff of MCG; assign the functions and responsibilities of MCG employees; approve internal policies and procedures and job descriptions of MCG employees (or terms of reference in the case of consultants or temporary employees retained to supplement full-time MCG staff);

(iii) hire and dismiss all MCG employees, and determine the applicable terms of employment (including compensation) and the employment agreement for each such employee, and any amendments thereto; *provided that* any such decisions with respect to any member of the Management Team and any other key employee, expert or consultant whose gross monthly compensation is greater than US \$3,000 (Three Thousand United States Dollars) shall be subject to the prior written approval of the Supervisory Board and MCC;

(iv) determine disciplinary actions and incentives for MCG employees in accordance with Georgian legislation; and exercise supervision over staff performance;

(v) represent MCG in relations with third parties, and act as the official contact person on behalf of the Government in relations with MCC; *provided that* CEO may delegate any of its responsibilities under this Section 2.3(a)(v) to any member of the Management Team;

(vi) submit each component of the Implementation Plan and any amendments thereto to the Supervisory Board for approval; present the Financial Plan and Audit Plan (and any amendments, modifications or supplements thereto) to the Supervisory Board; submit reports on financial management, performed activities, and project implementation; submit the results of any audit, detailed report of the previous economic year and the report on progress of all aspects of the Implementation Plan to the first meeting of the Supervisory Board called after the completion of the annual audit; and submit other reports as required by the Compact or as otherwise requested by the Supervisory Board;

(vii) organize the preparation of and distribution of agendas for the meetings of the Supervisory Board and the Stakeholders' Committee (*provided that* the CEO may delegate such responsibility to any member of the Management Team); and organize and administer meetings of the Supervisory Board (*provided that* the CEO may delegate such responsibility to the Deputy Director);

(viii) approve actions, decisions, documents or agreements, including certain Re-Disbursements (to the extent such approval is required pursuant to Section 2.3(b)), Compact Reports, certain human resources decisions, and certain procurement actions, in respect of MCG for which, pursuant to the provisions of the Compact or this Agreement, approval by the Supervisory Board is not required;

(ix) review and, if appropriate, approve any activities or actions that require CEO approval pursuant to the Procurement Agreement; *provided that* (unless otherwise notified by MCC) the CEO may delegate its responsibilities under this Section 2.3(a)(ix) to any member of the Management Team; and

(x) exercise other powers in accordance with the Compact, Georgian legislation, and the Charter on matters related to MCG activities.

(b) The CEO must approve in writing each of the following, which approval responsibility may not be delegated further except as set forth below:

(i) recommendations to the Supervisory Board on any matter submitted to the Supervisory Board for decision as a Board Action;

(ii) Re-Disbursements to any Provider; *provided that* with respect to any Re-Disbursement in respect of the Energy Rehabilitation Activity or the Road Rehabilitation Activity, the CEO can delegate to the Deputy Director or applicable Project Director the CEO's authority to approve any such Re-Disbursement which (1) either by itself or when added to other Re-Disbursements made or expected to be made to the same Provider or to any Affiliate of such Provider, would be less than US \$50,000 (Fifty Thousand United States Dollars), or (2) when added to other Re-Disbursements made or expected to be made to the same Provider or to any Affiliate of such Provider, would be equal to or greater than US \$50,000 (Fifty Thousand United States Dollars) but are being made pursuant to the same contract;

(iii) execution of any agreement for the provision of goods or services to MCG, or any amendments, modifications, termination or suspension of any such agreement (*provided that* the CEO may delegate to any member of the Management Team the CEO's authority to sign any such agreement (or any modification, amendment, termination or suspension thereto) with an aggregate contract value less than US \$2,000 (Two Thousand United States Dollars));

(iv) certification of other procurement activities as further set forth in the Procurement Agreement or other Supplemental Agreements; and

(v) each Compact Report or such other reports as may be requested by the Supervisory Board from time to time.

(c) Except as otherwise provided herein, the CEO may not delegate the duties, powers and authorities set forth in this Section 2.3.

2.4 Reporting Requirements. The CEO, with the assistance of the Management Team, shall promptly deliver and certify any reports, documents or other submissions requested by or required to be delivered to the Supervisory Board or MCC. Any documents delivered to the Supervisory Board shall be copied to MCC in English (unless otherwise notified from time to time by MCC to MCG).

2.5 Monitoring of Permitted Accounts. MCG shall ensure it (and the operation of the Permitted Accounts and the use of all MCC Funding) shall comply with all applicable United States Money Laundering and Terrorist Financing statutes, and other U.S. sanctions laws and regulations, including, (i) 18 U.S.C. Section 1956, (ii) 18 U.S.C. Section 1957, (iii) 18 U.S.C. Section 2339A, (iv) 18 U.S.C. Section 2339B, (v) 18 U.S.C. Section 2339C, (vi) 18 U.S.C. Section 981, (vii) 18 U.S.C. Section 982, and (viii) Executive Order 13224 Blocking Property

and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism, (ix) all applicable U.S. laws and regulations regarding restrictive trade practices or boycotts, including 15 C.F.R. Part 760, and (x) all other economic sanctions promulgated from time to time by means of Statute, Executive Order, or Regulation and as administered by the Office of Foreign Assets Control of the United States Treasury Department or any successor governmental authority, including those economic sanctions programs enumerated at 31 C.F.R. Parts 500 through 598. MCG shall ensure that no payments have been or have been caused to be made by MCG to any third party, including any other Government official, in connection with this Agreement in violation of the United States Foreign Corrupt Practices Act of 1977, as amended (15 U.S.C. 78a et seq.).

ARTICLE III STAKEHOLDERS' COMMITTEE

3.1 Composition.

(a) The Government shall establish a stakeholders' committee (the "*Stakeholders' Committee*") consisting of at least eight (8) members, taking into consideration appropriate gender and ethnic representation, and comprised of the following individuals:

(i) three (3) representatives of civil society (one of whom shall come from an organization in the Samtske-Javakheti region, and one of whom shall come from an environmental organization), each identified through the selection process described in Section 3.1(c);

(ii) the head of the Agrarian Committee of the Parliament of Georgia;

(iii) the head of the Road Department of the Ministry of Economic Development of Georgia;

(iv) the First Deputy Minister of the Ministry of the Environment of Georgia; and

(v) two (2) senior representatives of the business community, one of whom shall have experience in agribusiness and one of whom shall have experience in the financial sector.

(b) Each member of the Stakeholders' Committee described in Section 3.1(a)(ii), (iii) and (iv) shall serve in his or her capacity as a Government official, and not in his or her personal capacity. If such person resigns or is removed from such Government office, that person's position on the Stakeholders' Committee shall be taken by such person's successor in such Government capacity, subject to the prior written approval of MCC.

(c) The members of the Stakeholders' Committee described in Section 3.1(a)(i) and (v) shall be selected by panels as described below, and shall serve for a term of two (2) years. The selection of such members shall take place following publication in the leading newspapers in Georgia and on the MCG Website of an announcement on solicitation of candidates, which announcement shall include selection criteria for such positions, at least

twenty (20) days prior to the date of such selection. The special panels that shall choose such members of the Stakeholders' Committee shall be composed of:

(i) in the case of selection of the members of the Stakeholders' Committee described in Section 3.1(a)(i), a three (3) person special panel that shall consist of the Public Outreach Program Director of MCG, the Voting Member described in Section 1.2(a)(iv), and a representative of a civil society organization selected by a forum of civil society organizations, in a procedure acceptable to MCC; and

(ii) in the case of selection of the members of the Stakeholders' Committee described in Section 3.1(a)(v), a three (3) person special panel that shall consist of the Public Outreach Program Director of MCG, the Voting Member described in Section 1.2(a)(v), and a private sector representative selected by a forum of Georgian companies, in a procedure acceptable to MCC.

(d) Upon the prior written consent of MCC and the Supervisory Board, (i) the composition of the Stakeholders' Committee may be adjusted from time to time to ensure, among other things, a cross-section that is representative of the intended beneficiaries, and (ii) the number of members of the Stakeholders' Committee may be increased, but in no event to more than twelve (12) members, upon the majority vote of the then existing members. The vacancies created by such increase of members shall be filled by the procedure described in Section 3.1(a), (b) and (c).

3.2 Role and Responsibilities.

(a) The Stakeholders' Committee shall be used as a mechanism to give representatives of the private sector, civil society and local and regional governments the opportunity to provide advice and input to MCG regarding the implementation of the Compact.

(b) The Stakeholders' Committee shall have an opportunity to regularly provide, on at least a quarterly basis, to the CEO and to the Supervisory Board its views and recommendations. The Supervisory Board may, in response to the Stakeholders' Committee views or recommendations, require the Management Team to provide such other information and documents as the Supervisory Board deems advisable.

(c) The Stakeholders' Committee shall, in accordance with Section 1.4(a)(ii), appoint each Civil Observer. The Stakeholders' Committee shall appoint one of its members to be the secretary for the purpose of, among other things, organizing the convening and conduct of the meetings, and for taking the official minutes of the meetings of the Stakeholders' Committee.

(d) The members of the Stakeholders' Committee shall not receive any remuneration in connection with the performance of their duties on the Stakeholders' Committee.

3.3 Meetings; Decisions.

(a) The full Stakeholders' Committee shall meet at least once per quarter, and there shall be other periodic meetings as may be necessary or appropriate from time to time. A

special Stakeholders' Committee meeting may also be convened at the request of two (2) members of the Stakeholders' Committee, the CEO, or the Chairman of the Supervisory Board. Notice stating the place, date, time and agenda of each Stakeholders' Committee meeting shall be given to each member of the Stakeholders' Committee by the secretary of the Stakeholders' Committee (a) in respect of a regular quarterly meeting, either by hand, mail, facsimile or telegram at least seven (7) days prior to the date of the regular quarterly meeting, and (b) in respect of a special meeting, either by hand or mail not less than 48 hours before the date of the special meeting or by telephone or telegram not less than 24 hours before the date of such special meeting. Notwithstanding the foregoing, (x) any member of the Stakeholders' Committee may waive, in writing, the requirement to receive notice in respect of any such meeting, and (y) a member's presence at any such Stakeholders' Committee meeting shall constitute waiver by such member of the requirement to receive notice of such meeting. A valid meeting of the Stakeholders' Committee may not be held unless each member of the Stakeholders' Committee receives notice (or waives or is deemed to waive notice) of such meeting.

(b) The quorum for any meeting of the Stakeholders' Committee shall be the majority of the members of the Stakeholders' Committee. All decisions of the Stakeholders' Committee shall be taken by a majority of the members present at a meeting at which a quorum is present, each member having one (1) vote. Except as set forth in Section 3.3(f), each decision, election, appointment or action by the Stakeholders' Committee, whether specifically set forth in this Agreement or otherwise, shall be made in accordance with the procedures set forth in this Section 3.3(b).

(c) Each member of the Stakeholders' Committee may appoint an alternate representative, approved by majority vote of the other members, to serve when he or she is unable to participate in a meeting of the Stakeholders' Committee.

(d) If any member of the Stakeholders' Committee described in Sections 3.1(a)(i) or (v) (or the respective alternate representative of such member) shall fail to attend meetings of the Stakeholders' Committee twice in a row, such member shall be removed from the Stakeholders' Committee and a replacement shall be appointed for such person in accordance with the procedure described in Sections 3.1(a), (b) and (c).

(e) The Management Team shall present an update on the implementation of the Compact and progress towards achievement of the Objectives during each quarterly meeting of the Stakeholders' Committee and shall provide updated copies of the M&E Plan, the Implementation Plan, and reports on the Projects and Project Activities.

(f) Unless otherwise provided by this Agreement, any action required or permitted to be taken at any meeting of the Stakeholders' Committee may be taken without a meeting if (i) notice of such proposed action is sent to all members of the Stakeholders' Committee, and (ii) a majority of all the members of the Stakeholders' Committee consent in writing to such action. Any such action approved by written consent shall be filed with the minutes of proceedings of the Stakeholders' Committee. Notwithstanding the foregoing, if two (2) or more members of the Stakeholders' Committee so request, the Stakeholders' Committee shall hold a meeting (by telephone or otherwise) prior to such action by written consent.

(g) Unless otherwise provided by this Agreement, the members of the Stakeholders' Committee may participate in a meeting of the Stakeholders' Committee by means of a conference telephone or similar communications equipment that enables all persons participating in the meeting to hear and speak to each other. Participation in a meeting pursuant to this Section 3.3(g) shall constitute presence in person at such meeting.

3.4 Accessibility; Transparency. Stakeholders' Committee members shall make themselves accessible to the beneficiaries they represent for the purpose of receiving the beneficiaries' comments or suggestions regarding the Program. The minutes of all meetings of the Stakeholders' Committee shall be made public on the MCG Website within 5 business days after MCG receives such minutes, as approved by the Stakeholders' Committee, from the secretary of the Stakeholders' Committee.

ARTICLE IV

MCC APPROVAL RIGHTS; OTHER OBLIGATIONS

4.1 MCC Approval Rights. In addition to any other rights granted to MCC pursuant to this Agreement, MCC shall have the right to approve the following:

(a) A Re-Disbursement to any Provider to the extent that MCC has notified MCG and the Fiscal Agent that MCC wishes to review and approve such Re-Disbursement;

(b) any activities or actions that require MCC approval pursuant to the Procurement Agreement;

(c) any contract for which the value of the contract is equal to or greater than US \$100,000 (One Hundred Thousand United States Dollars), or such other amount as may be agreed to by MCC and MCG, including any amendments, modifications, termination, or suspension thereof;

(d) any approval rights granted to MCC in the Compact, including in respect of any transaction, activity, agreement or document described in Paragraph 3(c) of Annex 1 to the Compact (each such approval to be procured prior to the execution or carrying out of such transaction, activity, agreement or document, and prior to any MCC Disbursement or Re-Disbursements in connection therewith);

(e) any approval rights granted to MCC in the Disbursement Agreement or Procurement Agreement;

(f) the designation of the Georgian charities that are to receive the proceeds of investments made by the Georgia Regional Development Fund, and a distribution strategy with respect to such proceeds; and

(g) any approval rights granted to MCC in the Fund Management Agreement, the LLC Agreement of the Georgia Regional Development Fund or the Trust Agreement to be executed in connection with the Georgia Regional Development Fund.

4.2 No Liability on MCC. Notwithstanding anything in this Agreement, the Compact or any Supplemental Agreement to the contrary, the review and/or approval by MCC of any action, decision, agreement or document of MCG and/or the Government (a) shall not impose or create any liability on MCC in respect of such action, decision, agreement or document, and (b) shall not preclude the exercise by MCC of any other rights or privileges that MCC may have pursuant to the Compact, this Agreement, or any Supplemental Agreement.

4.3 MCC Information Rights. The Fiscal Agent (and MCC to the extent that MCC notifies MCG) shall be provided with a copy of each agreement that is funded (directly or indirectly) with MCC Funding, regardless of whether MCC has approval rights with respect to such agreement.

4.4 Other Obligations. MCG shall comply with (a) all applicable Georgian legislation and (b) this Agreement, all relevant provisions of the Compact (including Sections 2.3, 2.5, 3.2 and 3.8 of the Compact), the Disbursement Agreement and other relevant Supplemental Agreements, which provisions are hereby incorporated by reference herein, *mutatis mutandis*. MCG shall not establish any Affiliates or subsidiaries without the prior written consent of the Government and MCC.

4.5 MCG Approvals. In exercising its approval rights under the Compact, this Agreement and the other Supplemental Agreements, MCG (a) shall act in a reasonably commercial manner and shall not unreasonably withhold its approval, and (b) shall make each decision on a fair and objective basis using the criteria, if any, set forth in the relevant Supplemental Agreement.

4.6 Permitted Designee. Each of the Ministry, on behalf of the Government, MCG and MCC acknowledges that MCG has been designated by the Government as a “Permitted Designee”, as described in Section 3.2(c) of the Compact, pursuant to the terms of the Designation Agreement and the Acceptance of Designation Agreement.

4.7 No Control Over MCG. In satisfaction of Section 3(d)(ii)(1) of Annex I of the Compact and in accordance with the Charter, the Ministry, on behalf of the Government, waives any control (or right to control) over the operations and management of MCG.

4.8 Audits.

(a) The first financial year of MCG shall begin on the date of Entry into Force of the Compact and shall end on December 31, 2006. Each succeeding financial year shall begin on January 1 of such year, and shall end on December 31 of such year.

(b) The financial statements of MCG shall be audited annually by an independent auditor selected with the prior written consent of MCC. The Management Team shall assist the auditor and provide all information requested by the auditor. Such annual audit report shall be submitted to MCC within ninety (90) days after the end of each financial year. Upon the request of MCC, or in accordance with the requirements of the Compact or the Audit Plan, MCG shall arrange for other periodic or special audits to be performed from time-to-time.

(c) MCG shall keep (i) accurate and systematic books, records, documents and other evidence of the performance by MCG of the obligations to be performed by MCG under the Compact, and (ii) all Compact Records, in accordance with the requirements of Section 3.8 of the Compact. MCG shall permit authorized representatives of MCC, the Inspector General, the United States Government Accountability Office, the Government, any auditor responsible for an audit contemplated herein or otherwise conducted in furtherance of the Compact, and any agents or representatives engaged by any of the foregoing to conduct any assessment, review, audit or evaluation of the Program, at all reasonable times the opportunity to audit, review, evaluate, inspect or copy all records and documents in the control or possession of MCG (each, an “*Audit*”). MCG shall ensure access by MCC, the Inspector General, the United States Government Accountability Office, the Government, or relevant auditor, reviewer or evaluator or their respective representatives or agents to all of MCG’s relevant directors, officers, employees, Affiliates, contractors, representatives and agents. MCG shall keep and make available such books, records and documents for a period of at least five (5) years after the expiration or termination of this Agreement, or such longer period if required to resolve any litigation, claims, audit findings or any statutory requirements.

ARTICLE V

TERM; SUSPENSION; TERMINATION

5.1 Term.

(a) This Agreement shall be effective as of the Effective Date and shall terminate (unless terminated earlier pursuant to the provisions of this Agreement) on the date that is one hundred twenty (120) days following the later of (i) the expiration or termination of the Compact, or (ii) the completion of the liquidation and winding up of the Georgia Regional Development Fund; *provided, however*, that the term of this Agreement may be extended for a period that is longer than such one hundred twenty (120) day period if MCC determines that obligations of MCG incurred prior to such expiration or termination remain to be performed.

(b) Prior to the expiration or termination of the Compact, the Parties shall consult in good faith with a view to reaching an agreement in writing on (i) the treatment of MCG following the expiration or termination of the Compact, (ii) the process for ensuring the refunds of MCC Disbursements that have yet been released from a Permitted Account through a valid Re-Disbursement nor otherwise committed in accordance with Section 5.4(e) of the Compact, and (iii) any other matter related to winding up of MCG, the Program, this Agreement, and the Compact.

5.2 Termination; Suspension.

(a) MCC may terminate this Agreement in its entirety by giving the other Parties thirty (30) days’ written notice thereof.

(b) Notwithstanding any other provision of this Agreement or any other Supplemental Agreement between MCC and the Government (or any other Government Affiliate), MCC may suspend or terminate this Agreement, in whole or in part, and any

obligation or sub-obligation related thereto, upon giving MCG and the Ministry written notice, if MCC determines that:

(i) the Compact has expired or has been suspended or terminated in whole or in part in accordance with Section 5.4 of the Compact; *provided, however*, this Agreement shall remain in effect for one hundred twenty (120) days following the termination or expiration of the Compact or such other period as may be determined by MCC in accordance with Section 5.1;

(ii) any event that would be a basis for termination or suspension of the Compact or MCC Funding under Section 5.4 of the Compact has occurred; or

(iii) any other event has occurred, or circumstances arisen, which in the sole opinion of MCC, constitutes a Material Adverse Change (as defined in the Disbursement Agreement).

5.3 Effect of Termination. Notwithstanding any expiration, suspension or termination of this Agreement pursuant to this Article V, the following provisions of this Agreement shall survive: Sections 1.5, 5.3, 6.2, 6.4, 6.6, 6.7, 6.8 and 6.11.

ARTICLE VI MISCELLANEOUS

6.1 Representations and Warranties.

(a) MCG hereby represents and warrants to MCC that, as of the Effective Date, MCG has the power and authority to execute, deliver and perform its obligations under this Agreement and each other agreement, certificate, or instrument contemplated hereby. The execution, delivery and performance by MCG of this Agreement and the transactions contemplated herein (i) have been duly authorized by all necessary action and (ii) will not violate (A) any applicable Georgian legislation, or (B) any obligation of MCG. No other action, consent, approval, registration or filing with or any other action by any person, entity or governmental authority is required in connection with the execution and effectiveness of this Agreement. This Agreement is a valid and binding agreement and a legally enforceable obligation of MCG.

(b) The Ministry hereby represents and warrants to MCC that, as of the Effective Date, the Ministry has the power and authority to execute, deliver and perform its obligations and each other agreement, certificate, or instrument contemplated hereby on behalf of the Government. The execution, delivery and performance by the Ministry of this Agreement (i) have been duly authorized by all necessary action on the part of the Government and (ii) will not violate (A) any applicable Georgian legislation, or (B) any obligation of the Ministry, the Government, any Government Affiliate or any other Permitted Designee. No other action, consent, approval, registration or filing with or any other action by any governmental authority is required in connection with the execution and effectiveness of this Agreement. This Agreement is a valid and binding agreement and a legally enforceable obligation of the Ministry on behalf of the Government.

6.2 Confidentiality. All documents, reports, cost estimates, technical data and information concerning the Program that is not otherwise publicly available shall be treated by the Ministry and MCG confidentially in a reasonable and appropriate manner and in accordance with applicable professional standards, *provided, however*, all such documents, reports, cost estimates, technical data and other information may be provided by MCC to any employees, contractors, agents, representatives of MCC, the Inspector General, the General Accountability Office, or others designated by MCC; *provided, further*, that MCG may post on the MCG Website or otherwise make publicly available certain information, including quarterly financial reports. Each of the Ministry and MCG shall ensure that only those with a need to know and under similar obligations of confidentiality shall have access to any and all information, documents, cost estimates data and information provided to such Party or otherwise generated in connection with this Agreement and the Program. MCG shall ensure that each Director and each member of the Management Team complies with the confidentiality obligations set forth in this Section 6.2. MCG shall include obligations of confidentiality similar to those set forth in this Section 6.2 in the employment agreements of each member of the Management Team.

6.3 Communications. Any notice, certificate, request, report, approval, document or other communication required, permitted, or submitted by any Party to the other under this Agreement shall be (a) in writing, (b) in English, and (c) deemed duly given: (i) upon personal delivery to the Party to be notified; (ii) when sent by confirmed facsimile or electronic mail, if sent during normal business hours of the recipient Party, if not, then on the next business day (with an original copy to follow by mail); or (iii) two (2) business days after deposit with an internationally recognized overnight courier, specifying next day delivery, with written verification of receipt to the Party or Parties to be notified at the address indicated below, or at such other address as such Party may designate by notice to the other Parties.

To the Ministry:

Ministry of Finance
Attention: Minister of Finance
70, I. Abashidze Street
Tbilisi 0162
Georgia
Tel: (995-32) 22-68-05
Fax: (995-32) 93-19-22
Email: a.aleksishvili@mof.ge

To MCC:

Millennium Challenge Corporation
Attention: Vice President for Operations (with a copy to the Vice President and General Counsel)
875 Fifteenth Street, N.W.
Washington, D.C. 20005
United States of America
Facsimile: (202) 521-3700

Email: VPOperations@mcc.gov (Vice President for Operations);
VPGeneralCounsel@mcc.gov (Vice President and General Counsel)

To MCG:

Millennium Challenge Georgia Fund
Attention: Chief Executive Officer (Principal Representative)
4 Sanapiro St.
Tbilisi, 0105
Georgia
Tel: + (995-32) 93-91-12; 93-91-13; 93-91-33
Fax: + (995-32) 93-91-44
Email: lashanidze@mcc.ge

Whenever under the terms hereof the time for giving a notice or performing an act falls on a day that is not a business day, such time shall be extended to the next day that is a business day.

6.4 Assignment. MCC may assign, delegate or contract its rights and obligations, in whole or in part, under this Agreement to any Affiliate, agent, or representative of MCC, to the full extent permitted by the laws of the United States of America, without the prior consent of MCG and/or the Ministry. MCC shall provide written notice to MCG and the Ministry upon the effectiveness of such assignment, delegation or contract. Neither MCG nor the Ministry may assign, delegate or contract its rights and obligations under this Agreement without the prior written consent of MCC.

6.5 Representatives. For all purposes relevant to this Agreement, the Ministry shall be represented by the individual holding the position of, or acting as, its Minister of Finance (the “*Ministry Principal Representative*”), MCC shall be represented by the individual holding the position of, or acting as, its Vice President for Operations (the “*MCC Principal Representative*”), and the MCG shall be represented by the individual holding the position of, or acting as, its CEO (the “*MCG Principal Representative*,” and together with the Ministry Principal Representative and the MCC Principal Representative, the “*Principal Representatives*”), each of whom, by written notice, may designate one or more additional representatives (each, an “*Additional Representative*”) for all purposes other than signing amendments to this Agreement. The names of each Party’s Principal Representative and its respective Additional Representatives shall be provided, with specimen signatures, to each other Party, and each Party may accept as duly authorized any instrument signed by such Principal Representative or Additional Representative relating to the implementation of this Agreement, until receipt of written notice of revocation of their authority. A Party may replace its Principal Representative with a new representative upon written notice to the other Party, which notice shall include the specimen signature of the new Principal Representative.

6.6 Governing Law. This Agreement is an implementing agreement of the Compact, forms an integral part of such international agreement, and is governed by the principles of international law.

6.7 Consultation. Any Party may, at any time, request consultations relating to the interpretation or implementation of this Agreement between the Parties. Such consultations shall begin at the earliest possible date. The request for consultations shall designate a representative for the requesting Party with the authority to enter consultations and the other Parties shall endeavor to designate a representative of equal or comparable rank. If such representatives are unable to resolve the matter within twenty (20) days from the commencement of the consultations then each Party shall forward the consultation to its respective Principal Representative or such other representative of comparable or higher rank. The consultations shall last no longer than forty-five (45) days from date of commencement. If the matter is not resolved within such time period, MCC may terminate this Agreement upon written notice to MCG and the Ministry. The Parties shall enter any such consultations guided by the principle of achieving the Compact Goal in a timely and cost-effective manner.

6.8 MCC Status. Each of MCG and the Ministry recognizes and agrees that MCC is a United States Government corporation acting on behalf of the United States Government in the implementation of the Compact. As such, MCC has no liability under this Agreement, and is immune from any action or proceeding arising under or relating to this Agreement. In matters arising under or relating to this Agreement, MCC is not subject to the jurisdiction of the courts or any other juridical or other body of Georgia or any other jurisdiction.

6.9 Relationship of the Parties. This Agreement does not create a joint venture, partnership, or other similar relationship between the Parties.

6.10 Amendment; Waiver. The Parties may amend this Agreement by entering into a written amendment to this Agreement signed by the Principal Representatives of the Parties. The Parties further agree that any waiver, permit, consent or approval of any kind or character on any Party's part of any breach, default or noncompliance under this Agreement or any waiver on such Party's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to any Party, shall be cumulative and not alternative.

6.11 Nonwaiver of Remedies. The Parties agree that no delay or omission to exercise any right, power or remedy accruing to any Party, upon any breach, default or noncompliance by another Party under this Agreement, shall impair any such right, power or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of or in any similar breach, default or noncompliance thereafter occurring.

6.12 Attachments. Any exhibit, schedule or other attachment expressly attached hereto (together, the "***Attachments***") is incorporated herein by reference and shall constitute an integral part of this Agreement.

6.13 Headings. The Section and Subsection headings used in this Agreement are included for convenience only and are not to be considered in construing or interpreting this Agreement.

6.14 Severability. If one or more provisions of this Agreement is held to be unenforceable under any applicable law, such provision(s) shall be excluded from this Agreement and the balance of this Agreement shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

6.15 Entire Agreement. This Agreement, including all Attachments, and all certificates, documents or agreements executed and delivered in connection with and in furtherance of this Agreement, when executed and delivered, shall constitute the entire agreement of the Parties with respect to the subject matter hereof, superseding and extinguishing all prior agreements, understandings and representations and warranties relating to the subject matter hereof.

6.16 Counterparts; Signatures. This Agreement may be executed in one or more counterpart signatures and each when so executed and delivered shall be an original instrument, but such counterparts together shall constitute a single agreement. Four original versions of this Agreement shall be executed in accordance with this Section 6.16 and Section 6.19. Except as the Parties may otherwise agree in writing from time to time, a signature delivered by facsimile or electronic mail in accordance with Section 6.3 shall be deemed an original signature, and the Parties hereby waive any objection to such signature or to the validity of the underlying agreement on the basis of the signature's legal effect, validity or enforceability solely because it is in facsimile or electronic form. Such signature shall be accepted by the receiving Party as an original signature and shall be binding on the Party delivering such signature.

6.17 Definitions. All capitalized terms used herein shall have the meaning given such terms in Exhibit A.

6.18 Prohibited Actions.

(a) The Ministry and MCG shall ensure that no payments have been made to any third party in connection with the Program in violation of the conflict of interest and ethics regulations, and other related provisions, of Georgian legislation. The Ministry and MCG shall ensure that no payments have been or will be received by any employee, agent or representative of either of the Ministry or MCG in connection with the procurement of goods and services or works funded or to be funded under the Compact. MCG shall ensure that each Director and each member of the Management Team complies with the restrictions on payments to certain persons set forth in this Section 6.18(a). MCG shall include prohibitions similar to those set forth in this Section 6.18(a) in the employment agreement of each member of the Management Team.

(b) The Ministry and MCG shall ensure that no employee, agent, Director, member of the Management Team, or representative of the Ministry or MCG (each, an "affiliate") shall participate in the selection, award, or administration of a contract, grant or other benefit or transaction financed in whole or in part (directly or indirectly) by MCC Funding in which (i) such affiliate, members of such affiliate's immediate family or household or his or her business partners, or organizations controlled by or substantially involving such affiliate, has or have a financial or other interest, or (ii) the affiliate is negotiating or has any arrangement concerning prospective employment, unless, in either case, such affiliate has first disclosed in writing to MCG and MCC the conflict of interest and, following such disclosure, MCG and

MCC have agreed in writing to proceed notwithstanding such conflict. The Ministry and MCG each agrees that it shall not, and shall ensure that none of its respective affiliates (and shall seek to ensure that no other person or entity involved in the selection, award, administration, oversight or implementation of any contract, grant or other benefit or transaction funded in whole or in part (directly or indirectly) by MCC Funding) (x) solicits or accepts from, or offers to, a third party or seeks or is promised directly or indirectly for itself or for another person or entity, any gift, gratuity, favor or benefit, other than items of *de minimis* value and otherwise consistent with such guidance as MCC may provide from time to time, or (y) engages in any activity which is, or gives the appearance of being, a conflict of interest. MCG shall include conflict of interest provisions similar to those set forth in this Section 6.18(b) in the employment agreement of each member of the Management Team.

6.19 English Language. This Agreement is prepared and executed in English and in the event of any ambiguity or conflict between this official English version and any other version translated into Georgian for the convenience of the Parties, this official English version shall prevail.

6.20 Rules of Construction. The following rules of construction shall be followed when interpreting this Agreement:

- (a) words importing the singular also include the plural and vice versa;
- (b) words importing one gender include the other gender;
- (c) the words “include”, “including”, and variants thereof mean “includes, but not limited to” and corresponding variant expressions;
- (d) except as otherwise set forth herein, all references contained herein to contracts, agreements, or other documents shall be deemed to mean such contracts, agreements or documents, as the same may be modified, supplemented, or amended from time-to-time;
- (e) each reference to any applicable law shall be construed as a reference to such applicable law as it may have been, or may from time to time be, amended, replaced, extended or re-enacted and shall include any subordinate legislation, rule or regulation promulgated under any such applicable law and all protocols, codes, proclamations and ordinances issued or otherwise applicable under any such law;
- (f) the terms “hereof”, “herein”, “hereto”, “hereunder” and words of similar or like import, refer to this entire Agreement and not any one particular Article, Section, Schedule, or other subdivision of this Agreement;
- (g) any reference to “business days” shall mean any day other than a Saturday, Sunday, commercial banking holiday in Tbilisi, Georgia or Washington, D.C., United States, or a federal holiday in Georgia or United States of America; and any reference to “day” shall mean a calendar day; and
- (h) any reference to “month”, “quarter” or “year” shall have the common meaning given such terms based on a Gregorian calendar year beginning on January 1 and

ending on December 31 and divided into four approximately equal quarters beginning on each January 1, April 1, July 1 and October 1 of each such respective calendar year.

[Signature Page to Follow]

IN WITNESS WHEREOF, each of the Parties have caused this Agreement to be executed by a duly authorized representative as of the day and year first written above.

MILLENNIUM CHALLENGE CORPORATION

By: _____ / s /
Name: John Hewko
Title: Vice President of Operations

MINISTRY OF FINANCE, on behalf of the Government of Georgia

By: _____ / s /
Name: Alexi Alexishvili
Title: Minister of Finance

**MILLENNIUM CHALLENGE GEORGIA FUND,
as MCG**

By: _____ / s /
Name: Lasha Shanidze
Title: Chief Executive Officer

**SIGNATURE PAGE TO THE GOVERNANCE AGREEMENT BY AND AMONG
THE MILLENNIUM CHALLENGE CORPORATION, THE MINISTRY OF FINANCE, ON BEHALF OF
GOVERNMENT OF GEORGIA, AND THE MILLENNIUM CHALLENGE GEORGIA FUND**

EXHIBIT A
DEFINITIONS

“Additional Representative” shall have the meaning set forth in Section 6.5.

“Acceptance of Designation Agreement” means that certain agreement, by and between MCC and MCG, dated as of January 26, 2006.

“Affiliate” shall have the meaning set forth in Exhibit A of the Compact.

“Agreement” shall have the meaning set forth in the Preamble to this Agreement.

“Attachments” shall have the meaning set forth in Section 6.12.

“Audit” shall have the meaning set forth in Section 4.8(c).

“Audit Plan(s)” shall have the meaning described in Section 3.8(d)(ii) of the Compact.

“Board Action” shall have the meaning set forth in Section 1.6(c).

“CEO” shall have the meaning set forth in Section 1.1.

“CFO” shall have the meaning set forth in Section 2.1.

“Civil Observer” shall have the meaning set forth in Section 1.4(a)(ii).

“Chairman” shall have the meaning set forth in Section 1.3(a).

“Charter” means the charter of MCG as adopted by Resolution of the Government of Georgia N248 on December 29, 2005, and amended by Resolution of the Government of Georgia N28 on February 9, 2006.

“Compact” shall have the meaning set forth in the Recitals to this Agreement.

“Compact Goal” shall have the meaning set forth in Exhibit A of the Compact.

“Compact Reports” shall have the meaning set forth in Exhibit A of the Compact.

“Deputy Director” shall have the meaning set forth in Section 2.1.

“Designation Agreement” means that certain agreement, by and between the Prime Minister of Georgia, acting on behalf of the Government and MCC, dated as of December 30, 2005.

“Detailed Financial Plan” shall have the meaning set forth in Exhibit A of the Compact.

“Directors” shall have the meaning set forth in Section 1.1.

“Disbursement Agreement” shall have the meaning set forth in Exhibit A of the Compact.

“Effective Date” shall have the meaning set forth in the Preamble to this Agreement.

“Energy Rehabilitation Activity” shall have the meaning set forth in Exhibit A of the Compact.

“ESI Program Director” shall have the meaning set forth in Section 2.1.

“Fiscal Accountability Plan” shall have the meaning set forth in Exhibit A of the Compact.

“Fiscal Agent” shall have the meaning set forth in Exhibit A of the Compact.

“Fund Management Agreement” means that certain Fund Management Agreement, to be entered into by the GRDF and a fund manager.

“General Counsel” shall have the meaning set forth in Section 2.1.

“Georgia Regional Development Fund” or **“GRDF”** shall have the meaning set forth in Exhibit A of the Compact.

“Government” shall have the meaning set forth in the Recitals to this Agreement.

“Government Board Members” shall have the meaning set forth in Section 1.2(a)(ii).

“Implementation Plan” shall have the meaning set forth in Exhibit A of the Compact.

“M&E Program Director” shall have the meaning set forth in Section 2.1.

“M&E Plan” shall have the meaning set forth in Exhibit A of the Compact.

“Management Team” shall have the meaning set forth in Section 2.1.

“Material Adverse Change” shall have the meaning set forth in the Disbursement Agreement.

“MCA-Georgia” shall have the meaning set forth in the Preamble of this Agreement.

“MCA-Georgia Designated Rights and Responsibilities” shall have the meaning set forth in the Designation Agreement.

“MCC” shall have the meaning set forth in the Preamble of this Agreement.

“MCC Disbursement” shall have the meaning set forth in Exhibit A of the Compact.

“MCC Disbursement Request” shall have the meaning set forth in Exhibit A of the Compact.

“MCC Funding” shall have the meaning set forth in Exhibit A of the Compact.

“MCC Observer” shall have the meaning set forth in Section 1.4(a)(i).

“MCC Principal Representative” shall have the meaning set forth in Section 6.5.

“**MCG**” shall have the meaning set forth in the Preamble of this Agreement.

“**MCG Principal Representative**” shall have the meaning set forth in Section 6.5.

“**MCG Website**” shall have the meaning set forth in Exhibit A of the Compact for the term “MCA-Georgia Website”.

“**Ministry**” shall have the meaning set forth in the Preamble to this Agreement.

“**Ministry Principal Representative**” shall have the meaning set forth in Section 6.5.

“**Multi-Year Financial Plan**” shall have the meaning set forth in Exhibit A of the Compact.

“**Non-Government Board Members**” shall have the meaning set forth in Section 1.2(a)(v)

“**Observers**” shall have the meaning set forth in Section 1.1.

“**Outside Project Manager**” shall have the meaning set forth in Exhibit A of the Compact.

“**Parliament Board Members**” shall have the meaning set forth in Section 1.2(a)(iii).

“**Parties**” shall have the meaning set forth in the Preamble to this Agreement.

“**Party**” shall have the meaning set forth in the Preamble to this Agreement.

“**Prime Minister**” shall mean the Prime Minister of Georgia.

“**Principal Representative**” shall have the meaning set forth in Exhibit A to the Compact.

“**Procurement Agent**” shall have the meaning set forth in Exhibit A of the Compact.

“**Procurement Agreement**” shall have the meaning set forth in Exhibit A of the Compact.

“**Procurement Guidelines**” shall have the meaning set forth in Exhibit A of the Compact.

“**Procurement Program Director**” shall have the meaning set forth in Section 2.1.

“**Program**” shall have the meaning set forth in Exhibit A of the Compact.

“**Project**” shall have the meaning set forth in Exhibit A of the Compact.

“**Project Activities**” shall have the meaning set forth in Exhibit A of the Compact.

“**Project Director**” shall have the meaning set forth in Section 2.1.

“**Provider**” shall have the meaning set forth in Exhibit A of the Compact.

“**Public Outreach Program Director**” shall have the meaning set forth in Section 2.1.

“**Quorum**” shall have the meaning set forth in Section 1.8.

“Re-Disbursement” shall have the meaning set forth in Exhibit A of the Compact.

“Regional Infrastructure Development Activity” shall have the meaning set forth in Exhibit A of the Compact.

“Road Rehabilitation Activity” shall have the meaning set forth in Exhibit A of the Compact.

“Secretary” shall have the meaning set forth in Section 2.1.

“Stakeholder’s Committee” shall have the meaning set forth in Section 3.1(a).

“Supervisory Board” shall have the meaning set forth in Section 1.1.

“Supplemental Agreement” shall have the meaning set forth in Exhibit A of the Compact.

“Voting Members” shall have the meaning set forth in Section 1.1.

“Work Plans” shall have the meaning set forth in Exhibit A of the Compact.

EXHIBIT B

MANAGEMENT TEAM RESPONSIBILITIES

1. **Chief Executive Officer (“CEO”)**: See Section 2.3.
2. **Deputy Director**: The Deputy Director is responsible for day-to-day operations of MCG. The Deputy Director reports to the CEO and coordinates the general operation of the MCG Program components. The Deputy Director assists the CEO in MCG management and direction of strategic planning, organizational development, and MCG Program development and operations.
3. **Project Director - Georgia Regional Development Fund (GRDF)**: The Project Director (GRDF) is responsible for the management and supervision of MCG’s role with respect to the GRDF; this includes (a) monitoring whether the GRDF is operating in accordance with its governing documents and guidelines, (b) ensuring that MCG complies with its responsibilities to MCC under the Compact provisions relating to the GRDF, and (c) exercising rights and taking such actions as directed by the CEO with respect to the GRDF. Moreover, this role includes primary responsibility for the successful execution of the legal and policy reform activities relating to the GRDF.
4. **Project Director - Regional Infrastructure Development (RID)**: The Project Director (RID) is responsible for developing, guiding and supervising the RID project. This Project Director (RID) is also responsible for providing RID related information to MCG stakeholders, as well as civil society and private sector representatives.
5. **Project Director - Agribusiness Development Activity (ADA)**: The Project Director (ADA), with the assistance of the ADA management company, develops tenders for technical assistance and ensures that the tender process and grant award criteria are carried out in the appropriate manner. The Project Director (ADA) reviews reports from the ADA management company on implementation problems and delays and recommends actions to expedite progress if works fall behind schedule.
6. **Project Director - Road Rehabilitation Activity (Road)**: The Project Director (Road) has oversight authority for the Samtskhe-Javakheti Road Rehabilitation Project (“SJRRP”) and will act as the focal point for communications between outside organizations and MCG for SJRRP. This Project Director (Road) oversees the technical aspects of procurement of the services of consultants and contractors who will undertake surveys, feasibility studies, environmental impact assessments, design, road rehabilitation, and supervision for SJRRP;
7. **Project Director - Energy Rehabilitation Activity (Pipeline)**: The Project Director (Pipeline) has oversight authority for the rehabilitation of the North-South Gas Pipeline that fuels electric power generation and provides commercial and residential gas and heating services.

8. **ESI Program Director:** The ESI Program Director assesses, evaluates and develops policy concerning the environmental and social impacts of MCG activities. The ESI Program Director will serve as the in-house expert on environmental and social impact issues.
9. **Chief Financial Officer (“CFO”):** The CFO works under the supervision of the CEO and is responsible for all financial aspects of MCG. The CFO serves as the primary liaison with the Fiscal Agent who is responsible for ensuring and certifying that Re-Disbursements are properly authorized and documented in accordance with established control procedures. The CFO assures proper accounting of all MCC Funding financial transactions.
10. **Procurement Program Director:** The Procurement Program Director is responsible for managing procurement activity in MCG. The Procurement Program Director ensures that all procurement transactions are reported to the CEO and are implemented following the appropriate procurement guidelines, and in agreement with national legislation. The Procurement Program Director contributes to management planning and reporting activities by working on the procurement side of such planning and reporting.
11. **Public Outreach Program Director:** The Public Outreach Program Director is responsible for developing and ensuring the implementation of the public outreach strategy to facilitate maximum transparency of MCG operations, fostering supportive public opinion about the Projects, building overall positive reputation of MCG, enabling two way flow of information (MCG-stakeholders-MCG), and ensuring meaningful public participation. The Public Outreach Program Director will work in close cooperation with the monitoring and evaluation (“**M&E**”) unit and projects management. The Public Outreach Program Director is responsible for providing timely, valuable, and consistent information to MCG stakeholder and target groups.
12. **M&E Program Director:** The M&E Program Director is responsible for developing and guiding the M&E Plan and for implementing related activities within MCG. The M&E Program Director is responsible for providing timely and relevant information to MCG stakeholders in the Government, in the civil society community and in the private sector. This entails close communication with all involved in M&E design and implementation: the CEO; the Public Outreach Program Director; representatives from the Supervisory Board; representatives from the Stakeholders’ Committee; MCG Project Directors and other support staff when appropriate; Implementing Entities (as defined in Exhibit A of the Compact) M&E staff; MCC M&E staff in Washington; external consultants; and members of external M&E-related missions from MCC.
13. **General Counsel:** The General Counsel is responsible for providing advice to MCG staff on all legal issues affecting MCG and its operations. The General Counsel assists teams by addressing and resolving legal issues associated with MCG program development, including evaluating and conducting due diligence on various proposals and Compact implementation. The General Counsel provides legal advice on all issues affecting the internal operation of MCG, including but not limited to government contracts, fiscal law and corporate records management. The General Counsel is responsible for identifying and analyzing legal issues, negotiating and drafting key documents (including all powers of attorney and delegations of authority), presenting clear recommendations and assuring legal compliance. The General Counsel shall perform such other duties and exercise such other powers as are commonly incidental to the

office of the general counsel, as well as such other duties and powers that shall be assigned from time to time by the CEO.

14. **Secretary of the Supervisory Board:** The Secretary shall be responsible for maintaining MCG corporate books and records at the offices of MCG, giving notice of Supervisory Board meetings, attending and keeping minutes of Supervisory Board meetings, signing all documents on which the signature of the Secretary is necessary or appropriate, and attesting to the authenticity of any MCG generated documents. In addition, the Secretary shall perform such other duties and exercise such other powers as are commonly incidental to the office of a corporate secretary.